

Mr. Dominic Harrison
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20 November 2006

Dear Dominic,

Re: Consultation Document NTS GCM03: “Introduction of an SO Commodity Charge for NTS Storage Exit Flows”

EDF Trading (“EDFT”) is happy to submit the following in response to the above pricing consultation.

EDFT does not support the implementation of this Pricing Proposal NTS GCM03.

EDFT does not support the introduction of a commodity charge on storage flows, entry or exit and recorded our opposition to the concept in our response to Modification Proposal 0120.

Notwithstanding our opposition to the imposition of a charge, EDFT has elected to provide a detailed response to this consultation. We wish to make it clear that this response should not be interpreted as a signal of support for the implementation of any such commodity charge.

Comments

Shrinkage Unaccounted for Gas – In the event that a single meter is employed for gas entering and exiting a storage facility we believe that this cost element is not applicable as any metering errors would be netted off.

Internal costs – Such costs relate to fixed costs which are not related to throughput. We fail to understand how the recovery of these costs can be assigned to, in the case of storage sites, nominated flows. This implies that storage sites, which will experience significant nominated flows in two directions, impose significant costs on National Grid NTS in this regard. Given that normal offtakes or inputs are charged on the basis of actual flows, which in itself is an anomaly, it is clear that the monies recovered from storage sites will be excessive and therefore, we would argue, discriminatory.

Exit Capacity TO costs – We fail to understand, due to the benefits provided by storage facilities how this charge element can apply. It should not be considered as a loss of revenue to the TO as the benefits provided by the flow characteristics of storage facilities provide cost savings to the TO. Clearly, the TO is not required to invest in compression and additional pipeline capacity due to storage flows. It could be argued, therefore, that the TO is over-recovering and an adjustment should be made to take this into account.

Revenue Adjustments – It is entirely unclear in the proposal what proportion of under/over recoveries will be targeted at the Storage Commodity Charge. In fact, this is general criticism of the entire proposal as the commentary provided does not even attempt to quantify the cost allocation methodology.

Given the points we have raised previously, we find it difficult to justify the inclusion of this cost element as the only valid costs are internal costs which should not be levied on the basis of throughput (notional or physical).

Conclusions

EDFT believes that the only cost element which should apply to storage users is that relating to internal costs. As stated we do not believe that this should be recovered via a commodity charge as clearly costs are not related to throughput (notional or physical). We are unaware of the level of costs applied under this heading and so are unable to comment on what should be a reasonable fixed annual charge. In the simplest terms we believe that the share of the costs recoverable by storage users should equate to the total internal costs divided by the total number of meter points. The output from this calculation should then be multiplied to the number of storage meter points to generate the total amount recoverable from storage users.

We would refer NG NTS to the CSEP admin charge as an example of where fixed admin costs are recovered via a fixed daily charge.

In summary we believe that the proposal is flawed in a number of areas and should not be implemented. We would draw your attention to the following observations which underpin this conclusion:

- The proposal does not set out how the costs are apportioned between storage and non-storage users;
- The costs it proposes as being applicable to storage sites are not appropriate, except Internal Costs;
- Internal costs are fixed and not related to throughput and therefore should not be recovered via a commodity charge;
- Storage sites do, without doubt, reduce the capital and operating costs of the TO and SO. This is not considered in the proposal and therefore cannot be cost reflective;
- Charging on the basis of nominations is flawed and will lead to over-recovery of revenues. In this case the charges are not cost reflective.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

Jonas Törnquist
Head of Transmission and Regulation